

M E M O R A N D U M

June 25, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 950379-EI -- TAMPA ELECTRIC COMPANY
SURVEILLANCE AUDIT REPORT - PERIOD ENDED 12/31/95
AUDIT CONTROL NO. 96-060-2-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit working papers are available for review on request. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Tampa Electric Company
Angela Llewellyn
702 North Franklin Street
Tampa, Florida 33602-4418

DNV/sp

Attachment

cc: Chairman Clark
Commissioner Deason
Commissioner Johnson
Commissioner Kiesling
Commissioner Garcia
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
Slemkewicz/File Folder)
Tampa District Office (Bouckaert)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

06885 JUN 26 1996

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1995

Field Work Completed

May 20, 1996

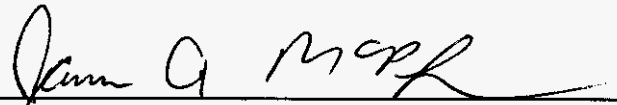
TAMPA ELECTRIC COMPANY


Tampa, Florida
Hillsborough County

SURVEILLANCE REPORT REVIEW

Docket Number 950379-EI

Audit Control Number 96-060-2-1


James A. McPherson
Audit Manager


Ann Bouckaert
Public Utility Supervisor
Tampa District Office

DOCUMENT NUMBER-DATE

06885 JUN 26 1996

FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

PURPOSE: We have applied the procedures described in Section II of this report to examine the appended Surveillance Report schedules for Rate Base, Net Operating Income and Capital Structure prepared by Tampa Electric Company for the twelve month period ending December 31, 1995.

SCOPE LIMITATION: There are no confidential workpapers associated with this report. The last day of fieldwork was May 20, 1996. There was no Exit Conference held for this examination.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

OPINION: The schedules of Rate Base, Net Operating Income and Capital Structure for the twelve months ended December 31, 1995 represent utility books and records maintained in substantial compliance with Commission directives. The expressed opinion extends only to the scope of work described in Section II of this report.

SUMMARY OF FINDINGS: Tampa Electric Co. purchased a transmission line from the Orlando Utilities Commission. Since the purchase price was \$6,182,810 greater than the book value received, a positive acquisition adjustment was recorded. Tampa Electric Co. included this acquisition adjustment as a component of rate base in their December 31, 1995 surveillance report filing.

II. SCOPE

The opinions contained in this report are based on the procedures described below. When used in this report COMPILED means that procedures include:

COMPILED: Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted performed no other audit work.

RATE BASE: Compiled components of Rate Base and agreed same to Surveillance Report as filed by the Company. Tested 13 month average calculations. Traced selected account balances to supporting detail records. Agreed details of purchase of transmission line from Orlando Utilities Commission to purchase agreement.

NET OPERATING INCOME: Compiled components of Net Operating Income and agreed same to Surveillance Report as filed by the Company.

CAPITAL STRUCTURE: Compiled components of Capital Structure and agreed same to Surveillance Report as filed by the Company.

OTHER: Recomputed Rate of Return on Equity with and without the inclusion of the acquisition adjustment. Traced the calculation of the \$50,800,000 of 1995 Deferred Revenue to posting in the general ledger. Recalculated the amount of accrued interest on this deferred revenue. Agreed selected adjustments shown on the surveillance report schedules to supporting company workpapers.

DISCLOSURE NO. 1

SUBJECT: Acquisition Adjustment

STATEMENT OF FACTS:

Tampa Electric Company (TEC) acquired a 25% interest in a transmission line from Orlando Utilities Commission (OUC) on October 2, 1995. The purchase price was \$7,459,939 consisting of \$5,575,039 cash and the transfer to OUC of a partial ownership interest in one of TEC's transmission lines. This transmission line was not completed at the date of closing and therefore, the value to be transferred to OUC was estimated to be \$1,884,900. The net book value of the transmission line purchased from OUC was determined to be \$1,277,129.

Based on this transaction, TEC recorded a positive acquisition adjustment of \$6,182,810 computed as follows.

| | |
|---------------------------|----------------------|
| PURCHASE PRICE | |
| Cash | \$5,575,039 |
| Rights to 69kV Line | <u>1,884,900</u> |
| TOTAL PURCHASE PRICE | 7,459,939 |
| LESS: Book Value Received | <u>1,277,129</u> |
| ACQUISITION ADJUSTMENT | \$6,182,810 ===== |

TEC recorded this acquisition adjustment in Account 114 and credits this account each month for the amortization over the estimated remaining life of the acquired property (31 years). The unamortized balance in the account at 12-31-95 was \$6,132,950.

The Federal Energy Regulatory Commission (FERC) has approved this purchase and exchange of facilities and the recording of the acquisition adjustment in Account 114. TEC has not applied for approval from the FERC to include recovery of this acquisition adjustment in their wholesale rates.

TEC did include this acquisition adjustment in their retail Rate Base shown in their 1995 Surveillance Report.

STATEMENT OF OPINION:

Prior FPSC rulings sometimes allow acquisition adjustments to be included in rate base and sometimes they are not allowed, depending on the circumstances. TEC's 1995 Return on Equity (ROE) would not be materially affected if this acquisition adjustment was not allowed. This is because the 13 month average amount included

Disclosure No. 1 (con't)

in rate base was only \$1.4 million. In 1996, however, the effect on ROE could be material because approximately \$6 million would be included in rate base and \$199,440 of amortization expense would be included in NOI.

CONCLUSION:

The FPSC should make a determination if this acquisition adjustment will be allowed in rate base. The amount of Deferred Income required in 1996 will depend on this determination.

TAMPA ELECTRIC COMPANY
AVERAGE RATE OF RETURN
RATE BASE
DECEMBER 1995

SCHEDULE 2
PAGE 1 OF 3

| | (1) Plant In Service | (2) Accumulated Depreciation & Amortization | (3) Net Plant In Service | (4) Property Held For Future Use | (5) Construction Work In Progress | (6) Nuclear Fuel (Net) | (7) Net Utility Plant | (8) Working Capital | (9) Total Rate Base |
|--|----------------------------|--|-----------------------------------|--|--|------------------------------|-----------------------------|---------------------------|---------------------------|
| System Per Books | \$ 2,891,003,778 | \$ (1,162,573,329) | \$ 1,728,430,449 | \$ 56,859,869 | \$ 303,757,380 | \$ 0 | \$ 2,089,047,698 | \$ 69,020,612 | \$ 2,158,068,310 |
| Less: Fuel and ECCR | | | | | | | | (31,461,290) | (31,461,290) |
| Other | | | | | | | | 12,249,432 | 12,249,432 |
| Oil Backout | (140,305,261) | 106,286,795 | (34,018,466) | | | | (34,018,466) | 330,746 | (33,687,720) |
| Regulatory Base - System | 2,750,698,517 | (1,056,286,534) | 1,694,411,983 | 56,859,869 | 303,757,380 | 0 | 2,055,029,232 | 50,139,500 | 2,105,168,732 |
| Regulatory Base - Retail | 2,571,058,394 | (991,246,181) | 1,579,812,213 | 54,010,377 | 301,482,707 | 0 | 1,935,305,297 | 47,806,187 | 1,983,111,484 |
| FPSC Adjustments | | | | | | | | | |
| Fuel Inventory | | | | | | | | (199,970) | (199,970) |
| CWIP | | | | | (301,482,707) | | (301,482,707) | | (301,482,707) |
| CWIP in Rate Base | | | | | 46,592,497 | | 46,592,497 | | 46,592,497 |
| Job Order Receivables | | | | | | | | (1,338,989) | (1,338,989) |
| Total FPSC Adjustments | 0 | 0 | 0 | 0 | (254,890,210) | 0 | (254,890,210) | (1,538,959) | (256,429,169) |
| FPSC Adjusted | 2,571,058,394 | (991,246,181) | 1,579,812,213 | 54,010,377 | 46,592,497 | 0 | 1,680,415,087 | 46,267,228 | 1,726,682,315 |
| Pro Forma Revenue Increase and Annualization Adjustments: | | | | | | | | | |
| Total Pro Forma Adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pro Forma Adjusted | \$ 2,571,058,394 | \$ (991,246,181) | \$ 1,579,812,213 | \$ 54,010,377 | \$ 46,592,497 | \$ 0 | \$ 1,680,415,087 | \$ 46,267,228 | \$ 1,726,682,315 |

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0165-FOF-EI by the Florida Public Service Commission staff and for that reason only. Tampa Electric Company takes the position that certain portions of these prescribed calculations may not present fairly the company's current financial status and that they should not be used for that purpose.

TAMPA ELECTRIC COMPANY
AVERAGE RATE OF RETURN
INCOME STATEMENT
DECEMBER 1995

SCHEDULE 2
PAGE 2 OF 3

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
|--|--------------------|------------------------------|----------------|-----------------------------|-------------------------|----------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|----------------------|
| | Operating Revenues | O & M Fuel & Net Interchange | O & M Other | Depreciation & Amortization | Taxes Other Than Income | Income Taxes Current | Deferred Income Taxes (Net) | Investment Tax Credit (Net) | Gain/Loss On Disposition | Total Operating Expenses | Net Operating Income |
| System Per Books | \$ 1,082,255,570 | \$ 428,691,839 | \$ 232,882,878 | \$ 113,253,343 | \$ 87,928,410 | \$ 84,848,634 | \$ (13,811,854) | \$ (4,764,758) | \$ (41,083) | \$ 928,988,689 | \$ 163,268,871 |
| Less: Recoverable Fuel | (424,840,814) | (419,458,235) | | | (179,837) | (2,118,105) | | | | (421,757,277) | (3,083,337) |
| GP&F Revenues/Penalties | (113,918) | | | | (95) | (43,907) | | | | (44,002) | (69,916) |
| Recoverable ECCR | (17,713,082) | | (17,776,286) | | (12,474) | 29,193 | | | | (17,750,567) | 46,485 |
| Recoverable ECCR - ROI | (217,718) | | | | (151) | (83,926) | | | | (84,077) | (133,641) |
| Recoverable Oil Backout | (11,715,934) | | (3,605,252) | (7,015,260) | (511,745) | (1,803,551) | 1,877,325 | 396,697 | | (10,661,786) | (1,054,148) |
| Regulatory Base - System | 637,654,304 | 9,233,704 | 211,501,340 | 106,238,083 | 87,224,008 | 80,828,338 | (11,934,329) | (4,368,061) | (41,083) | 478,681,890 | 158,972,314 (a) |
| Regulatory Base - Retail | 608,355,241 | 8,868,341 | 208,391,303 | 100,493,114 | 84,794,977 | 75,429,764 | (11,450,636) | (4,191,025) | (39,258) | 460,096,580 | 148,258,661 (a) |
| FPSC Adjustments | | | | | | | | | | | |
| Industry Association Dues | | | (129,026) | | | 49,772 | | | | (79,254) | 79,254 |
| Solaris and Waterfall | | | (11,289) | | | 4,355 | | | | (8,934) | 8,934 |
| Stockholder Relations | | | (330,852) | | | 127,665 | | | | (203,287) | 203,287 |
| Chvic Club Meals | | | (2,139) | | | 825 | | | | (1,314) | 1,314 |
| Franchise Fee Revenue and Expense | (20,512,150) | | | | (20,550,436) | 14,769 | | | | (20,535,667) | 23,517 |
| Gross Receipts Tax | (24,528,389) | | | | (24,528,389) | 0 | | | | (24,528,389) | 0 |
| Income Tax True-up | | | | | | 342,913 | | | | 342,913 | (342,913) |
| Opt Prov Revenue and Third Party Purchas | (172,329) | (172,329) | | | | 0 | | | | (172,329) | 0 |
| Job Order Revenues | (260,808) | | | | | (100,530) | | | | (100,530) | (160,078) |
| Pilot Conservation and DSM Programs | | | (98,721) | | | 38,082 | | | | (60,639) | 60,639 |
| Economic Development | | | (47,136) | | | 18,183 | | | | (28,953) | 28,953 |
| Total FPSC Adjustments | (45,473,476) | (172,329) | (619,283) | 0 | (45,078,825) | 496,034 | 0 | 0 | 0 | (45,374,383) | (99,093) |
| FPSC Adjusted | 562,881,765 | 8,496,012 | 205,772,040 | 100,493,114 | 39,716,152 | 75,925,798 | (11,450,636) | (4,191,025) | (39,258) | 414,722,197 | 148,159,568 |
| Pro Forma Revenue Increase and Annualization Adjustments: | | | | | | | | | | | |
| Total Pro Forma Adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pro Forma Adjusted | \$ 562,881,765 | \$ 8,496,012 | \$ 205,772,040 | \$ 100,493,114 | \$ 39,716,152 | \$ 75,925,798 | \$ (11,450,636) | \$ (4,191,025) | \$ (39,258) | \$ 414,722,197 | \$ 148,159,568 |
| (a) The addition of earnings from AFUDC would increase the System NOI by \$19,323,801 and Jurisdictional NOI by \$19,179,096 | | | | | | | | | | | |
| Current Month Amount: | | | | | | | | | | | |
| System Per Books | \$ 81,753,662 | \$ 31,464,085 | 22,431,866 | \$ 9,216,040 | \$ 6,490,566 | \$ 6,711,542 | \$ (3,495,089) | \$ (397,066) | \$ (3,672) | \$ 72,418,272 | \$ 9,335,390 |
| Jurisdictional Per Books | \$ 45,678,495 | 703,346 | 20,023,906 | 8,146,852 | 6,233,412 | 6,170,864 | (3,472,867) | (348,189) | (3,496) | \$ 37,453,828 | \$ 8,224,867 |

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0185-FOF-EI by the Florida Public Service Commission staff and for that reason only. Tampa Electric Company takes the position that certain portions of these prescribed calculations may not present fairly the company's current financial status and that they should not be used for that purpose.

TAMPA ELECTRIC COMPANY
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS

SCHEDULE 4

DECEMBER 1995

| AVERAGE | System Per Books | Retail Per Books | Adjustments | | Adjusted Retail | Ratio (%) | Low Point | | MidPoint | | High Point | |
|-----------------------------|---------------------|---------------------|-----------------|------------------|--------------------|--------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | | | Specific | Pro Rata | | | Cost Rate (%) | Weighted Cost (%) | Cost Rate (%) | Weighted Cost (%) | Cost Rate (%) | Weighted Cost (%) |
| | | | | | | | | | | | | |
| Long Term Debt | \$ 589,862,991 | \$ 589,862,991 | \$ (42,838,711) | \$ (95,214,358) | \$ 451,809,922 | 29.17 % | 6.84 | 1.74 | 6.84 | 1.74 | 6.84 | 1.74 |
| Short Term Debt | 94,861,589 | 94,861,589 | (17) | (16,511,486) | 78,350,086 | 4.54 | 6.01 | 0.27 | 6.01 | 0.27 | 6.01 | 0.27 |
| Preferred Stock | 54,956,000 | 54,956,000 | (852,735) | (9,417,146) | 44,666,119 | 2.59 | 6.49 | 0.17 | 6.49 | 0.17 | 6.49 | 0.17 |
| Customer Deposits | 50,623,997 | 50,623,997 | (25,000) | (6,607,196) | 41,791,799 | 2.42 | 5.73 | 0.14 | 5.73 | 0.14 | 5.73 | 0.14 |
| Common Equity | 995,852,169 | 995,852,169 | (6,587,089) | (172,190,235) | 817,074,845 | 47.32 | 10.75 | 5.09 | 11.75 | 5.56 | 12.75 | 6.03 |
| Deferred Income Taxes | 292,036,788 | 292,036,788 | 1,806,134 | (51,145,929) | 242,698,976 | 14.04 | - | - | - | - | - | - |
| Deferred Tax - FAS 109 | 0 | 0 | 0 | 0 | 0 | 0.00 | - | - | - | - | - | - |
| Tax Credits - Zero Cost | 126,907 | 126,907 | 0 | (22,089) | 104,818 | 0.01 | - | - | - | - | - | - |
| Tax Credits - Weighted Cost | 60,755,179 | 60,755,179 | (15,086) | (10,572,343) | 50,167,750 | 2.91 | 9.19 | 0.27 | 9.61 | 0.29 | 10.43 | 0.30 |
| Total | \$ 2,139,075,800 | \$ 2,139,075,800 | \$ (48,512,504) | \$ (363,880,781) | \$ 1,726,882,515 | 100.00 % | | 7.66 | | 8.17 | | 8.65 |

| YEAR END | System Per Books | Retail Per Books | Adjustments | | Adjusted Retail | Ratio (%) | Low Point | | MidPoint | | High Point | |
|-----------------------------|---------------------|---------------------|-----------------|------------------|--------------------|--------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | | | Specific | Pro Rata | | | Cost Rate (%) | Weighted Cost (%) | Cost Rate (%) | Weighted Cost (%) | Cost Rate (%) | Weighted Cost (%) |
| | | | | | | | | | | | | |
| Long Term Debt | \$ 590,829,648 | \$ 590,829,648 | \$ (39,099,438) | \$ (113,084,123) | \$ 438,646,087 | 25.32 % | 6.97 | 1.78 | 6.97 | 1.78 | 6.97 | 1.78 |
| Short Term Debt | 143,796,654 | 143,796,654 | (24) | (29,472,948) | 114,323,682 | 6.60 | 6.01 | 0.40 | 6.01 | 0.40 | 6.01 | 0.40 |
| Preferred Stock | 54,956,000 | 54,956,000 | (829,625) | (11,093,648) | 43,932,327 | 2.48 | 6.49 | 0.16 | 6.49 | 0.16 | 6.49 | 0.16 |
| Customer Deposits | 51,273,843 | 51,273,843 | 0 | (10,509,226) | 40,764,617 | 2.35 | 5.73 | 0.13 | 5.73 | 0.13 | 5.73 | 0.13 |
| Common Equity | 1,040,147,535 | 1,040,147,535 | (6,841,833) | (211,789,185) | 821,516,717 | 47.41 | 10.75 | 5.10 | 11.75 | 5.57 | 12.75 | 6.04 |
| Deferred Income Taxes | 284,759,631 | 284,759,631 | 1,822,801 | (58,738,714) | 227,843,718 | 13.16 | - | - | - | - | - | - |
| Deferred Tax - FAS 109 | 0 | 0 | 0 | 0 | 0 | 0.00 | - | - | - | - | - | - |
| Tax Credits - Zero Cost | 76,576 | 76,576 | 0 | (15,695) | 60,881 | 0.00 | - | - | - | - | - | - |
| Tax Credits - Weighted Cost | 58,422,547 | 58,422,547 | (14,504) | (11,971,471) | 46,436,572 | 2.66 | 9.34 | 0.25 | 9.97 | 0.27 | 10.60 | 0.26 |
| Total | \$ 2,224,262,434 | \$ 2,224,262,434 | \$ (44,962,623) | \$ (446,875,210) | \$ 1,732,824,601 | 100.00 % | | 7.80 | | 8.29 | | 8.77 |

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0165-FOF-EI by the Florida Public Service Commission staff and for that reason only. Tampa Electric Company takes the position that certain portions of these prescribed calculations may not present fairly the company's current financial status and that they should not be used for that purpose.

State of Florida

Commissioners:

SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

June 27, 1996

Angela Llewellyn
Tampa Electric Company
702 North Franklin Street
Tampa, Florida 33602-4418

RE: Docket No. 950379-EI -- Tampa Electric Company
Surveillance Audit Report - Period Ended December 31, 1995
Audit Control #96-060-2-1

Dear Ms. Llewellyn:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

KF/mas
Enclosure
cc: Public Counsel
Ausley Law Firm